AR61

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

1998

ANNUAL REPORT

Peregrine Oil and Gas Ltd.

Peregrine Oil and Gas Ltd.

CORPORATE PROFILE

PEREGRINE OIL AND GAS LTD. is an Alberta based public oil and gas company. Peregrine is involved in a Joint Venture with three other Alberta based public companies for natural gas exploration and development in the Arkoma Basin in Arkansas and Oklahoma.

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting will be held on June 14th, 1999 at 2:30 o'clock in the afternoon (Calgary time) at The 400 Club, The McDougall Room, 710 - 4th Avenue S.W., Calgary, Alberta, T2P 0K3. All shareholders are invited to attend. For those who are unable to attend, we encourage you to complete and return the Form of Proxy at your earliest convenience.

CORPORATE PRESENTATION AND RECEPTION

All shareholders and interested parties are invited to attend a Corporate Presentation and Reception on June 14th, 1999 at 3:00 o'clock in the afternoon (Calgary time) at The 400 Club, The McDougall Room, 710 - 4th Avenue S.W., Calgary, Alberta, T2P 0K3.

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ABBREVIATIONS

bbls	Barrels
bbls/d	Barrels per day
boe	Barrels of Oil Equivalent
mcf/d	Thousands of cubic feet per day
mmcf/d	Millions of cubic feet per day

Peregrine Oil and Gas Ltd.

MESSAGE TO SHAREHOLDERS

Peregrine's goals for 1998 was to drill 10 exploration wells, to continue to purchase lands on the Arkoma Project and search out a new gas play in Texas.

1998 in Review

The oil prices of the past year reached a 25 year low, affecting Peregrine as it has many other oil and gas companies in the industry. Cash flows were drastically reduced and access to new equity was restricted. Such a downturn combined with the escalation in outstanding industry debt to levels that are uncomfortable for most industry participants prevented Peregrine from obtaining equity financing to be able to explore and develop specific areas in the Arkoma Basin. As a result, no drilling occurred in the Arkoma program during the second half of 1998.

In spite of this, Peregrine realizes the cyclical changes in the oil and gas industry and was prepared for such a change by reducing overhead and cutting expenses; in addition, the Company has no debt. Peregrine's strongest suit has been that its primary focus has been the exploration and development of natural gas, the prices have remained strong and according to the Nymex, will continue to climb.

Peregrine had planned to drill 10 wells in 1998, however, due to the economic climate of the industry, it was both economically and financially unfeasible. The Company participated in the drilling of two new exploration wells during the first quarter which were dry. However, the Phillips #1 well drilled on the Crystal Springs Prospect encountered good quality reservoir rock and had significant hydrocarbon shows. The Company plans to offset this well in an up dip location during 1999.

The Madden well was completed during the year. It is an oil producing well of 21 bbls/d and has been producing since August. Two gas producing wells that were drilled in late 1997 were also placed on stream in August. The Rott #1 performed well initially but encountered mechanical problems late in 1998. Subsequent to year end, the well was reworked and is currently averaging over 600 mcf/d (150 net). The Lewis #1 well is producing at low rates from a low permeability carbonate reservoir and will require a frac treatment to enhance production rates.

Peregrine's main focus has been on land acquisitions, increasing its land base from 30,000 gross acres (7,500 net) to over 70,000 acres (17,500) within the Arkoma Basin, achieving its 1998 objective to purchase lands on the Arkoma Project.

Peregrine opted to not participate in the Texas gas play. It was felt that the Arkoma Project should be funded before a new project was undertaken.

Peregrine Oil and Gas Ltd.

MESSAGE TO SHAREHOLDERS (continued)

1998 Financials

Revenue for 1998 was $103,476, a decline of 19.5% from 1997. The majority of this decline is related to the low oil prices during the year. The Company's capital spending for the year was $1,213,103, about a 25% decrease from 1997. The majority of this spending was allocated to the Arkoma Project, primarily for prospect generation and land acquisition. Peregrine had a net loss for the year of $344,039, a decline of almost 12% from last year. This loss resulted primarily from the ceiling test write down of $220,000. This write down reflects the low oil price received for December 1998.

Outlook for 1999

During the first quarter of 1999, the falling oil prices have begun to improve and the markets are looking better. The focus for 1999 thus far has been obtaining equity for current operations, including drilling lower risk, lower cost prospects and farming out a number of higher risk, higher cost prospects in the Arkoma Basin. This will continue to be Peregrine's focus for the interim.

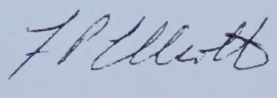
Year 2000 Issue

The Company has considered the expected and possible impact on the business of the year 2000 and have considered, in particular, the impact on amounts and disclosures in the consolidated financial statements and any other related public information. Peregrine is satisfied, based on its evaluation, that the year 2000 problem will not have a material effect on its consolidated financial statements, nor is there, in its estimation, a material future capital outlay for the year 2000 problems that may exist in its system.

ACKNOWLEDGEMENTS

The expertise of Peregrine's directors and technical advisors have limited overhead expenses, and their hard work is greatly appreciated. Peregrine would also like to thank its loyal shareholders for their continued confidence and support. We will continue to work hard to find projects with significant return with the lowest possible risk to their investment.

Yours truly,



Frank P. Elliott, P. Geol.
President and Chief Executive Officer
May 10, 1999

MANAGEMENT'S REPORT

The consolidated financial statements of PEREGRINE OIL AND GAS LTD. and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and include certain estimates that reflect management's best judgements.

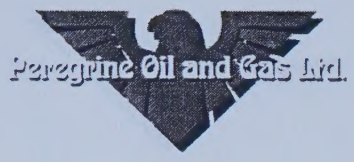
Management maintains a system of internal controls that provides reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee meets periodically with management and the auditors to satisfy approval of the financial statements to the Board.

The external auditors, Davis, Daignault, Schick & Co., Chartered Accountants, appointed by the shareholders, have audited the Company's consolidated financial statements in accordance with generally accepted auditing standards. They have conducted an independent examination of the financial statements and have full and unrestricted access to the audit committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Frank P. Elliott, P. Geol.
President & CEO, Director

Robert R. Hobbs, CMA
Vice-President, Director



AUDITORS' REPORT

To the Shareholders of:
PEREGRINE OIL AND GAS LTD.

We have audited the consolidated balance sheet of PEREGRINE OIL AND GAS LTD. as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the company as at December 31, 1998 and 1997 and the consolidated results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

CALGARY, Alberta
March 17, 1999

DAVIS, DAIGNAULT, SCHICK & CO.
CHARTERED ACCOUNTANTS

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

DECEMBER 31

	1998	1997
ASSETS		
Current		
Cash	$ 193,172	$ 681,657
Accounts receivable	31,033	272,261
Deposits and prepaids	33,760	37,760
	257,965	991,678
Investment in private company	39,637	—
Capital - Note 2	3,683,571	2,724,672
	$3,981,173	$3,716,350
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 250,052	$ 698,407
Advances from directors – Note 3	556,000	—
	806,052	698,407
Provision for site restoration costs	12,276	10,935
SHAREHOLDERS' EQUITY		
Capital stock - Note 4	3,883,897	3,384,021
Deficit	(721,052)	(377,013)
	3,162,845	3,007,008
	$3,981,173	$3,716,350

Director: J P Elliott

Director: Robert R Hubbs

Peregrine Oil and Gas Ltd.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	1998	1997
Revenue		
Oil and gas revenue net of royalties	$ 103,476	$ 123,729
Expenses		
General and administrative	126,144	110,207
Well operating costs	65,826	54,809
Depletion and amortization	255,545	266,332
	447,515	431,348
Net loss before income taxes	(344,039)	(307,619)
Income taxes - Note 5	—	—
Net loss for the year	(344,039)	(307,619)
Deficit, beginning of year	(377,013)	(69,394)
Deficit, end of year	$ (721,052)	$ (377,013)
Loss per share:		
Basic	$ (0.03)	$ (0.03)
Fully diluted	$ (0.02)	$ (0.02)

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	1998	1997
Operating activities:		
Net loss for the year	$ (344,039)	$ (307,619)
Adjustments to reconcile income from operations to net cash provided:		
Amortization and depletion	254,204	262,992
Provision for site restoration	1,341	3,340
	(88,494)	(41,287)
Changes in operating assets and liabilities:		
Accounts receivable	241,228	(122,340)
Deposits and prepaids	4,000	(21,858)
Accounts payable and accrued liabilities	(448,355)	643,026
Cash flows (used in) from operating activities	(291,621)	457,541
Investing activities:		
Acquisition of investment	(39,637)	—
Acquisition of capital assets	(1,213,103)	(1,524,646)
Cash flows used in investing activities	(1,252,740)	(1,524,646)
Financing activities:		
Advances from directors	556,000	—
Proceeds of share issue, net of issue costs	499,876	1,244,254
Cash flows from financing activities	1,055,876	1,244,254
Net (decrease) increase in cash	(488,485)	177,149
Cash, beginning of year	681,657	504,508
Cash, end of year	$ 193,172	$ 681,657
Cash flow per share:		
Basic	$ (0.01)	$ (0.01)
Fully diluted	$ (0.01)	$ (0.01)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND DECEMBER 31, 1997

Note 1: Significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Peregrine Oil and Gas Inc.

b) Basis of presentation

The majority of the company's assets result from the activities of its wholly owned subsidiary, Peregrine Oil and Gas Inc. At December 31, 1998, the subsidiary was engaged in exploration for oil and natural gas and, as such, had not attained production at commercial levels. All costs, net of revenues, are being capitalized. Realization of these assets is dependent upon the discovery of petroleum and natural gas reserves in commercial quantities.

c) Petroleum and natural gas properties

i) Capitalized costs

The company follows the full cost method of accounting for oil and gas operations, whereby all costs associated with the exploration for, and development of, oil and natural gas reserves are capitalized by cost centre. Such costs include property acquisition expenditures, geological and geophysical expenses, carrying charges of non-productive properties, costs of drilling productive and non-productive wells, and plant and production equipment costs. Financing and administrative costs are capitalized only to the extent that they are directly related to capital projects. Proceeds from the sale of any interests in oil and gas properties are applied against capitalized costs, with no gain or loss recognized unless such a disposition would alter the rate of depletion by at least 20%.

ii) Depletion and amortization

Depletion of oil and gas properties is calculated using the unit-of-production method based on estimated net proven reserves, as determined

by the company and reviewed yearly by independent consulting engineers. Natural gas production and reserves are converted to equivalent units of measure using a relative energy content.

Amortization of other equipment is provided using the declining balance method at rates ranging from 20% to 30% per annum.

iii) Developed properties - ceiling test

The company applies a ceiling test to the costs of developed properties to ensure that capitalized costs (net of accumulated depletion) do not exceed the estimated future net revenues from production of proven reserves less estimated future administrative, financing and income tax costs. Future net revenues are based on prices and costs prevailing at the year end.

iv) Unproved properties

The company annually reviews the capitalized costs associated with undeveloped properties to determine whether they are impaired.

When costs are not likely to be recovered, a provision for impairment is made.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to the ceiling test and depletion until such time as the properties are proven.

d) Future site restoration costs

Future site restoration and reclamation costs are amortized using the unit of production method. These costs are based on management's estimates of the anticipated costs of site restoration net of expected recoveries. Removal and site restoration costs will be charged against the accumulated provision as incurred.

e) Joint ventures

Substantially all of the company's oil and gas related activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the company's proportionate interest in such activities.

f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange in effect at the year end. Non-monetary assets and liabilities are translated at historic rates of exchange. Revenues and expenses

are translated at average rates of exchange in effect during the year. Translation gains and losses are included in earnings except for unrealized gains and losses on non-monetary assets and liabilities which are deferred and amortized to earnings over the life of the related asset or liability.

g) Investments

Long-term investments are carried at cost less permanent declines in value.

h) Earnings and cash flow per share

Earnings per share amounts have been computed using the weighted average number of shares outstanding during the year. Fully diluted earnings per share assumes the exercise of all options and warrants.

i) Financial instruments

The company's financial instruments are comprised of cash, accounts receivable, deposits and prepaids, accounts payable and accrued liabilities and advances from directors.

i) Fair value of financial assets and liabilities

The fair values of financial instruments approximate their carrying amount due to the short term maturity or capacity for prompt liquidation.

ii) Credit risk

Virtually all of the company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Note 2: Capital assets

i) 1998

	Cost	Accumulated Amortization	Net Book Value
Oil and gas properties	$4,308,312	$ 642,719	$3,665,593
Other equipment	27,217	9,239	17,978
	$4,335,529	$ 651,958	$3,683,571

ii) 1997

	Cost	Accumulated Amortization	Net Book Value
Oil and gas properties	$3,095,352	$ 392,791	$2,702,561
Other equipment	27,074	4,963	22,111
	$3,122,426	$ 397,754	$2,724,672

During the year ended December 31, 1998, the company capitalized $45,186 (1997 - $68,596) of general and administrative expenditure relating to exploration and pre-production activities.

The cost of unproved property excluded from the depletion base as at December 31, 1998 was $3,410,430 (1997 - $2,246,352).

Oil and gas properties with a net book value of $125,159 (1997 - $369,058) have no tax base.

Accumulated amortization includes a write-down of $220,000 resulting from the application of the ceiling test described in Note 1 c) iii).

Note 3: Advances from directors

During the year two directors of Peregrine Oil and Gas Ltd. advanced $556,000 to the company. The monies were used to continue completion of drilled wells and to meet previous obligations. On February 1, 1999, upon approval received from the Alberta Stock Exchange, the advances were repaid and lent again in the form of Series 1, 8% Convertible Debentures. The company has pledged as security for the debentures all of the issued and outstanding shares of its wholly owned subsidiary and its interest in an oil well. The debentures, with a term of one year, are convertible into common shares of the corporation at the election of the holders based on the average trading price of the common shares. The holders of the debentures have signed an election to convert the debentures into common shares at $0.19 each but have not converted the debentures to date.

Note 4: Share capital

a) Authorized:

An unlimited number of common shares without nominal or par value.

b) Issued:

i) 1998

	Number of Shares	$
Common shares		
December 31, 1997	11,774,750	$3,111,580
Shares cancelled	326,800	—
	11,447,950	3,111,580
Warrants		
Special warrants issued for cash	790,000	987,500
		4,099,080
Share issue costs		(215,183)
		$3,883,897

ii) 1997

	Number of Shares	$
Common shares		
December 31, 1996	9,763,750	$2,316,290
Issued on exercise of warrants	1,800,000	675,000
Issued on exercise of stock options	190,000	99,500
Issued in exchange for services	21,000	20,790
	11,774,750	3,111,580
Warrants		
Special warrants issued for cash	260,000	325,000
Warrants subscribed and fully paid but unissued	120,000	150,000
	380,000	475,000
		3,586,580
Share issue costs		(202,559)
		$3,384,021

c) 223,200 (1997 - 550,000) common shares are being held for cancellation. Permission for the cancellation and transfer from escrow was received from the Alberta Securities Commission in 1997 subject to transfer from escrow.

Subsequent to year end all 223,200 common shares were cancelled.

d) Legal capital

The legal stated capital is $493,500 greater than the value of share capital as shown in the financial statements. This difference arose because of the method of accounting for a business combination in 1994, which ascribed a lower value to share capital than the stated value of the shares which were issued pursuant to the terms of the acquisition agreement.

e) Warrants

	Number of Warrants
Balance, December 31, 1997	360,000
Special warrants issued	530,000
Warrants expired	(100,000)
Balance, December 31, 1998	790,000

790,000 special warrants were issued to shareholders and a director of the company and were outstanding as at December 31, 1998. Each special warrant entitles the holder to one common share at no additional cost.

Subsequent to year end all 790,000 special warrants were exercised.

f) Trading restrictions

2,472,873 of the issued shares are subject to escrow trading restrictions.

g) Options

	Number of Options
Balance, December 31, 1997 and 1998	1,151,000

The 1,151,000 stock options outstanding at December 31, 1998 were issued to directors, officers, shareholders and consultants of the company and are as follows:

Number of Shares	Exercise Price Per Share	Expiry Date
300,000	$0.50	November 16, 1999
451,000	$0.50	January 29, 2000
400,000	$1.00	August 24, 2002

Subsequent to year end, 400,000 stock options with an exercise price of $1.00, expiring on August 24, 2002, were cancelled and re-issued with an exercise price of $0.30 expiring on February 15, 2004. Upon resignation of a director, 100,000 options with an exercise price of $0.50 expired on January 5, 1999. An additional 50,000 stock options were issued to a consultant and an employee of the company at an exercise price of $0.30 expiring on February 15, 2004.

Note 5: Income taxes

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates to earnings before income taxes.

The difference results from the following:

	1998	1997
Effective tax rate	44.3%	44.3%
Computed expected tax provision	$ (151,377)	$ (135,352)
Effect on taxes of:		
Non-deductible crown payments	5,628	6,582
Depletion on assets without tax base	107,316	111,543
Resource allowance	7,616	—
Share issue costs	(18,892)	(17,947)
Loss carry-forward benefit not recognized	49,203	35,161
Other	506	13
	$ —	$ —

The company has incurred losses for income tax purposes of approximately $367,680 (1997 - $277,338), the related benefit of which has not been recorded in the financial statements. Unless sufficient taxable income is earned, these losses will expire between 2000 and 2005.

Note 6: Segmented information

The company is involved in the exploration and development of petroleum and natural gas properties in Canada and the United States of America. Operations and identifiable assets by geographic region are as follows:

	1998	1997
Revenue		
Canada	$ 103,476	$ 143,115
Operating loss		
Canada	$ (344,039)	$ (307,619)
Identifiable assets		
Canada	$ 396,561	$1,060,530
United States	3,584,612	2,655,820
	$3,981,173	$3,716,350
Capital expenditures		
Canada	$ 49,025	$ 27,119
United States	1,165,562	1,518,376
	$1,214,587	$1,545,495

Note 7: Related party transactions

a) Consulting fees of $16,469 were paid to a company in which a director is the sole shareholder.

b) Effective January 1, 1998, Peregrine Oil and Gas Ltd. entered into a Management Agreement with two of its executive officers which is for a term of two years. The agreement provides for a payment of $60,000 a year for each individual for two years in the event of change of control of the company. Change of control is defined as a take-over of more than 30% of the shares of the company or, alternatively, change of a majority of the Board of Directors, either at one time or through a series of steps.

Note 8: Subsequent events

During March 1999, two companies owned by directors of Peregrine Oil and Gas Ltd. each engaged in a 20% cost sharing agreement with Arkana Operating Co., Inc. (Arkana). Arkana is the operator of a joint venture between Peregrine Oil and Gas Ltd. and three other Alberta public companies. The Arkana joint venture constitutes the major activity of Peregrine Oil and Gas Ltd. The two companies are involved in a joint operation with Arkana. This includes all operations

conducted in the planning, drilling, testing and evaluation of the initial well, and all subsequent operations in connection with the completion and equipping or abandonment of subsequent wells located in this field in the Arkoma Basin in Arkansas/Oklahoma. Each party has the right to elect to case and complete the test well or abandon the same at the time of the Casing Point Election.

Note 9: Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Frank P. Elliott, P. Geol.
President & CEO, Director

Robert R. Hobbs, CMA
Vice-President, Director

John Horning
Director

Gregory B. Matthews, LL.B.
Director

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SHARES LISTED

Alberta Stock Exchange
(Symbol "PGG")